

Message Text

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SUBJECT: LATIN AMERICAN BANK'S FINANCIAL PROBLEMS

REF: STATE 121905

SUMMARY. LATIN AMERICAN BANK FINANCIAL DIFFICULTIES INVOLVE ALEGATIONS OF WIDESPREAD FRAUD AND COULD LEAD TO BANKRUPTCY ACTION AGAINST THE BANK ON BEHALF OF LOCAL CREDITORS OR SOME 40 U.S. AND FOREIGN BANKS WHO ARE OWED SOME \$22 MILLION. A BANKRUPTCY WOULD ALSO BE LIKELY TO FORCE THE LIQUIDATION OF MANY OR ALL OF SOME 44 COMPANIES OF THE GRUPO PROIN, WITH RESULTANT SEVERE ECONOMIC REPERCUSSIONS IN COSTA RICA AND STRONGLY ADVERSE IMPLICATIONS FOR COSTA RICA'S REPUTATION ABROAD. THERE IS, HOWEVER, A CHANCE THAT THE CREDITORS WILL BE ABLE TO WORK OUT A BAIL-OUT PLAN WITH THE ASSISTANCE OF THE COSTA RICAN CENTRAL BANK. THIS SOLUTION WOULD APPEAR TO BE PREFERABLE FOR ALL CONCERNED. END SUMMARY.

1. MOST OF THE MEMBERS OF THE COMMITTEE OF CREDITORS WHO ARE LOOKING INTO THE AFFAIRS OF THE FINANCIALLY LIMITED OFFICIAL USE

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TROUBLED LATIN AMERICAN BANK HAVE NOW RETURNED TO

THE U.S. AFTER A SERIES OF MEETINGS WITH CENTRAL BANK OFFICIALS AND PARTIES INVOLVED IN THE LATIN AMERICAN BANK.

2. IT HAS BEEN AGREED THAT THE CREDITORS, 40 BANKS IN THE U.S. AND SEVERAL OTHER COUNTRIES TO WHOM THE LATIN AMERICAN BANK OWES SOME \$22 MILLION, WILL SEEK A SIXTY-DAY MORATORIUM DURING WHICH A SOLUTION CAN BE WORKED OUT. A LEGAL COUNSEL HAS BEEN ATTAINED IN THE CAYMAN ISLANDS WHERE THE LATIN AMERICAN BANK IS CHARTERED FOR THE PURPOSE OF WORKING OUT SUCH A MORATORIUM AGREEMENT UNDER WHICH THE VARIOUS CREDITORS WOULD BE PREVENTED FROM TAKING UNILATERAL ACTIONS THAT COULD FORCE THE LAB INTO BANKRUPTCY.

3. AT THE INSISTENCE OF U.S. CREDITORS, THE BOOKS AND ALL RECORDS OF THE LAB HAVE BEEN TURNED OVER TO THE CUSTODY OF THE CENTRAL BANK OF COSTA RICA FOR SAFE KEEPING. A TWENTY-FIVE-MAN TEAM OF AUDITORS FROM THE CENTRAL BANK IS EXAMINING ALL OF THE RECORDS OF THE LAB AND OF THE GRUPO PROIN IN ORDER TO DETERMINE THE TOTAL VALUE OF ASSETS AVAILABLE TO PAY OFF CREDITORS. A TEAM OF AUDITORS HIRED BY THE U.S. CREDITORS IS ALSO AT WORK MAKING AN ESTIMATE OF THE MARKET VALUE OF COLLATERAL BEHIND THE LOANS AND PRESUMABLY ALSO THE PERSONAL ASSETS OF THE RODRIGUEZ BROTHERS (THE PRINCIPALS OF BOTH THE LAB AND THE GRUPO PROIN) WHICH HAVE BEEN PLEDGED TO MEET THE OBLIGATIONS OF THE LAB.

4. PROBABLY THE MOST FAVORABLE OUTCOME TO THE LAB PROBLEM WOULD BE A BAIL-OUT OPERATION INVOLVING SEVERAL OF THE U.S. CREDITORS AND THE CENTRAL BANK OF COSTA RICA. A DEAL IS UNDER CONSIDERATION THROUGH WHICH THE THREE U.S. BANKS WHICH WERE PARTNERS OF THE LAB AND WERE ALSO ITS LARGEST CREDITORS, WOULD LEND SUFFICIENT MONEY TO THE CENTRAL BANK OF COSTA RICA TO MEET ALL LAB OBLIGATIONS. THE CENTRAL BANK WOULD THEN USE THE FUNDS TO PAY OFF ALL OF THE DEBTS OWED TO ALL CREDITORS ABROAD AND WOULD SUPERVISE AN ORDERLY LIQUIDATION OR RESTRUCTURING OF THE LAB. WHETHER THE CENTRAL BANK WILL BE WILLING TO UNDERTAKE SUCH A RESCUE OPERATION WILL DEPEND IN PART ON THE RESULTS OF THE AUDIT WHICH WILL INDICATE WHAT ASSETS WOULD BE AVAILABLE IN THE LAB TO REPAY THE CENTRAL BANK. THERE IS ALSO A QUESTION AS TO WHETHER THE THREE U.S. BANKS WILL BE WILLING TO COME UP WITH SUFFICIENT FUNDS FOR THE BAIL-OUT OPERATION, BUT THERE IS A GOOD CHANCE THAT THEY WILL DECIDE TO DO SO BECAUSE THEIR INTIMATE CONNECTIONS WITH THE LAB

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COULD MAKE THEM LIABLE TO SUITS BY OTHER CREDITORS FOR HAVING FAILED TO PREVENT A WHOLE SERIES OF QUESTIONABLE TRANSACTIONS BY THE LAB, SOME OF WHICH WERE REPORTEDLY FRAUDULENT. ALTERNATIVELY, THEY MIGHT BE CHARGED WITH HAVING FAILED TO NOTIFY OTHER CREDITORS OF LAB'S MAL-PRACTICES UNTIL SOME TIME AFTER THEY BECAME KNOWN TO THEM.

5. IF A BAIL- OUT OPERATION IS NOT MOUNTED, THERE APPEARS TO BE EVERY INDICATION THAT THE LAB WILL BE THROWN INTO LIQUIDATION. THIS IN TURN WOULD BE LIKELY TO CAUSE THE FAILURE OF MOST OR ALL OF THE 44 MEMBER COMPANIES OF THE GRUPO PROIN. IT COULD WELL ALSO CAUSE THE FAILURE OF SOME OTHER NON-RELATED COMPANIES WHO HAVE LOANS FROM THE LAB WHICH WOULD BE SUBJECT TO IMMEDIATE OR EARLY CALL. NEEDLESS TO SAY, SUCH A COURSE OF EVENTS WOULD SHAKE THE COSTA RICAN ECONOMY AND WOULD DEAL AN EXTREMELY SERIOUS BLOW TO COSTA RICA'S REPUTATION ABROAD.

6. CLEARLY THE BEST SOLUTION FOR COSTA RICA IS ONE THAT AVOIDS A CHAIN OF BANKRUPTCIES. FOR THIS REASON, THE CENTRAL BANK CAN PROBABLY BE EXPECTED TO MAKE A MAXIMUM EFFORT TO SAVE THE SITUATION. A BAIL-OUT OPERATION WOULD PROBABLY ALSO BE IN THE BEST INTEREST OF THE CREDITORS, AS THE GRUPO PROIN DOES HAVE A NUMBER OF ASSETS AND SOME OF ITS COMPONENT COMPANIES ARE THOUGHT TO BE SOUND OPERATIONS. THE VALUE OF THE ASSETS AND THE SOUNDNESS OF THE GRUPO PROIN COMPANIES WILL ONLY BECOME KNOWN, OF COURSE, AFTER THE AUDIT IS COMPLETED.

7. MEANWHILE, BECAUSE OF THE MALPRACTICE AND FRAUD THAT OCCURRED, FOUR COSTA RICAN OFFICERS OF THE LAB HAVE BEEN FIRED AND THE CHAIRMAN, ARNOLD RODRIGUEZ, AND LIMITED OFFICIAL USE

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THE PRESIDENT, ROBERT BANKS, HAVE HAD MOST OF THEIR POWERS SEVERELY RESTRICTED.

8. THE NEXT MAJOR STEP IN THIS SCENARIO WILL BE A MEETING OF THE CREDITORS COMMITTEE AT GRAND CAYMAN ON OR ABOUT JUNE 21 TO CONSIDER HOW BEST TO PROCEED. THE U.S. EXIMBANK IS REPRESENTED ON THE CREDITORS COMMITTEE AND THE DEPARTMENT MAY WISH TO REMAIN IN CONTACT WITH EXIMBANK OFFICIALS IN ORDER TO URGE THEM TO WORK FOR A SOLUTION THAT WILL PROTECT THE INTEREST OF THE CREDITORS WHILE AVOIDING UNNECESSARY CHAOS. A POINT OF CONTACT AT THE EXIMBANK WOULD BE GILBERT LOCHRIE WHO ATTENDS THE SESSIONS OF THE CREDITOR GROUP.
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